

Demand Side Balancing Reserve and Supplemental Balancing Reserve: Informal Consultation on the development and procurement of two new balancing services

Thank you for the opportunity to respond to your consultation on the potential requirement for new balancing services.

Barking Power Station is a 1000MW Combined Cycle Gas Turbine power station located in Dagenham, Essex which was commissioned in 1995. It comprises two Blocks of 400MW and 600MW capacity; the larger of the two Blocks has been withdrawn from service since October 2012 as a consequence of market conditions.

Our responses to the consultation questions concerning Supplemental Balancing Reserve are given below.

SBR 1

We would suggest that where Grid wishes to guarantee the availability of particular generating stations in order to balance the system, it should consider whether this can be achieved most effectively and at lowest cost through existing and proven contract mechanisms such as Short Term Operating Reserve. Although we note that historically this has been used by NGC to cover against short term factors such as demand forecast errors, amending the definition of and requirement for STOR may be a more pragmatic approach to securing the required reserves.

SBR 2

It is not possible to come to a view on NGC's proposals to seek reasonably satisfactory evidence regarding additionality, given that in paragraph 123 of the document NGC itself concludes that it has not yet determined what type of evidence would be appropriate, or has it given any indication of how it would be reasonably satisfied as to its adequacy.

Proving that plant is additional is not straightforward as the decision making process around mothballing plant is a lengthy one and the point at which the additionality would be assessed is an arbitrary point in time (presumably the tender date). There would seem to be an argument to allow access to all market participants as such a contract would only be attractive to marginal plant for whom mothballing is a real possibility and this would allow them to weigh up the potential certainty of an SBR contract (assuming that any penalty regime does not erode the revenue certainty of a contract) against both the uncertain revenues of market participation or mothballing. Should a marginal plant receive an SBR contract then they would be effectively removed from the market and the tighter market conditions would result in a market signal to remaining plant (both those available and mothballed).

SBR 3

Although the engineering reliability of the plant would undoubtedly influence the choice of non-delivery charge by a tenderer, a range of other factors could also contribute, including the

relationship between the non-delivery charge and any overall cap on penalties, and commercial risk appetite which may vary from provider to provider. Accordingly, should NGC seek to infer engineering reliability from commercial bid data it may be prone to error.

We suggest that NGC give careful consideration to any penalty regime, as if poorly designed it could deter participation or result in substantial risk premia being incorporated into offered prices.

SBR 4

The need for a contracted plant to run from time to time is understood from the point of both generator and NGC, but the resultant generation will displace market participating plant and some means of compensating for this will need to be considered.

SBR 5

We do not believe it is necessarily desirable that the Supplemental Balancing Reserve should only be despatched, and considered for procurement, after Demand Side Balancing Reserve. These should be considered in a holistic manner and the least cost solution to both procurement and deployment should be adopted.

We agree with the approach that DBSR & SBR are only to be utilised following the exhaustion of all market balancing alternatives (irrespective of cost), but once beyond the market alternatives it is hard to understand why DBSR & SBR would not be assessed against each other on a cost basis, both in relation to procurement and utilisation.

Should there be a situation where SBR and/or DSBR options are utilised before market balancing alternatives then the unused market options should be compensated such that they are not disadvantaged from not being utilised to ensure there is no erosion of market incentives.

It would seem sensible that SBR should be despatched using existing processes and systems which are already installed and are proven, such as EDL instructions for bid/offer acceptances.



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